SELECTED ISSUES:
THE 1999-00 BUDGET PROPOSAL FOR:
CALIFORNIA INFRASTRUCTURE BONDS

The Department of Finance estimates that the state must acquire $82 billion in capital projects by 2009. To meet this need, it estimates that funds are available for nearly $42 billion of these projects. The balance of the need, over $40 billion, has no identified financing. The department's $40 billion estimate is sometimes referred to as the net "unmet capital need."

The Department of Finance indicates that higher education has the greatest unmet need, about $13 billion. Correctional facilities and K-12 education need about $9 billion each. Table 1 details the Finance estimates of unmet need.

Table 1

DOF ESTIMATES OF NEW CAPITAL NEED 1999 THROUGH 2009 (Dollars in billions)	
Higher Education	$13.0
Correctional Facilities	9.4
K-12 Education	8.7
Resources and Environmental Protection	6.0
Other	3.2
Total	**$40.3**

Currently, the state has no long-term plan for meeting the $40 billion need.

Typically, state policy makers propose that the unmet need, as detailed in Table 1, be financed with new General Obligation (GO) bonds. Because the Constitution requires that GO bonds be approved by the voters, at least $40 million in new bonds would have to be authorized in the five election cycles between 1999 and 2009 if the state were to meet the estimates made by Finance. This suggests that, on average, voters would have to approve $8 billion in bonds in each of the next five election cycles.

The Governor Proposes a Commission to study the building needs of California for the next decade, and to recommend a comprehensive multi-year bond plan. The commission is to make "an initial report" no later than May 1, 1999. The commission is also directed to "review", among other things, the following:

- A building program to address all the needs of the state (including education, resources, housing, and general government);

- The appropriate split between state and local financing;
- Linking infrastructure finance and performance; and
- A rational prioritization of capital needs.

The Governor Proposes $1.1 Billion for Capital Outlay: Funding comes from the General Fund, special funds, federal funds, GO bonds and lease-revenue bonds. Higher education would receive over half the total capital outlay funds. Table 2 displays the Governor's proposal.

Table 2

GOVERNOR'S CAPITAL BUDGET PROPOSAL ALL FUNDS 1999-00 (Dollars in millions)	
Higher Education	$572
Corrections and Youth Authority	188
Resources	108
Military Department	73
Other	162
Total	**$1,071**

When preparing his budget proposal, the Governor faced a multi-billion dollar deficit. To help solve the deficit problem, he shifted a number of capital projects from pay-as-you-go to lease-purchase. This change in financing allowed the Governor to spread the costs of projects over several budgets, thereby reducing the capital costs in the proposed budget.

The Analyst Recommends a Different Process: In its December 1998 report, "Overhauling the State's Infrastructure Planning and Financing Process," the Legislative Analyst observes that the state's current capital investment process suffers from many problems, including:

- A lack of executive and legislative evaluation of statewide infrastructure needs;
- A failure to set priorities within existing funding streams; and
- Insufficient funding sources for infrastructure.

Among other things, the Analyst recommends that the state:

- Adopt a policy that dedicates six percent of annual General Fund expenditures to infrastructure;

- Develop an integrated statewide infrastructure plan; and

- Establish legislative committees to oversee development and financing of the statewide infrastructure plan.

POLICY ISSUES

- ***Shifting to Financing by Lease-Purchase is More Expensive:*** By paying for capital projects over several budgets, the state can commence more capital projects in 1999-00 than it can if it relied on pay-as-you-go financing for the same projects.

  By using lease-purchase financing, the state will pay a higher real acquisition cost for the capital. This is because the state will pay interest and transaction costs on the lease-revenue bond. The budget committee may wish to consider whether the advantages of lease-purchase financing outweigh the increased financing costs.

- ***Developing a Long-Term Plan:*** The bond measures to be placed on next year's ballots will need to conform with the recommendations made by the Governor's commission about the need and timing of bond measures. The Legislature will need to consider these recommendations and establish priorities as it deliberates on any bond package it wishes to propose to voters in the year 2000 elections.